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SUBJECT: AGOA ELIGIBILITY REVIEW

1.(U)Country Background Summary: Tanzania remains AGOA-eligible. Tanzania has sustained high rates of broad-based economic growth with generally low inflation over the past decade due to sound macroeconomic policies and structural reforms, as well as a favorable global environment and debt relief. Real GDP growth averaged about 7 percent a year during 2000-08; however, the Bank of Tanzania has forecast a slowdown to 5% in 2009, due to the impact of the global economic crisis. However, foreign reserves remain strong, tourism appears to be rebounding and banks are well-capitalized. Inflation was kept solidly in check for much of the last decade, but accelerated in 2008 (13.5 percent at year-end), driven mainly by effects of the spike in international food and fuel prices and adverse regional food supply shocks. Inflation has remained in double digits in 2009 due to drought in many food-producing regions. In contrast, non-food inflation has remained modest at 5.8 percent. Over two decades, Tanzania has been transformed from a centrally planned/command economy to a more market-oriented system, through successful implementation of trade liberalization measures. The government has taken deliberate steps to encourage private sector-led growth through restoration of market forces and reduced interference in commercial activities; however, there was little progress on reforms in 2008-09.

2.(U)Despite strong macroeconomic performance, progress on poverty reduction has been mixed. From 2001-2007, there were substantial improvements in education and health outcomes, a significant increase in household assets, and improved residences, but the incidence of income poverty declined only modestly.

3.(U)The Government of Tanzania (GOT) is a stable, multiparty democracy. The ruling party (former single party) dominates the executive and legislative branches. Tanzania continues to make progress in strengthening its market-based economy and eliminating barriers to U.S. trade and investment. The GOT pursues economic policies to reduce poverty, encourage good governance, and protect worker rights. Despite these efforts, poverty is widespread and corruption remains a major problem. Tanzania's \$698 million Millennium Challenge Compact entered into force in September 2008. The Compact aims to remove constraints to economic growth through targeted investments in Tanzania's transport, energy and water sectors.

Comments on Eligibility Requirements

[I](#). Market based Economy

Major Strengths Identified

4.(U)Performance under the IMF's Policy Support Instrument has been broadly satisfactory and the program remains on track. In particular, the floor for net international reserves was surpassed by a wide margin and the exchange rate has remained stable. Central Bank governor Benno Ndulu credits IMF pressure for helping GOT keep to a very conservative regulatory stance, which left Tanzanian banks with very high liquidity ratios and low non-performing loan percentages through the global economic crisis.

15. (U)Regional integration remains an important objective. Negotiations within the East African Community (EAC) toward the establishment of a common market have progressed, with a projected entry into force in January 2010.

16. (U)FDI grew to USD 744 million in 2008, continuing several years of steady growth, but is expected to decline in 2009 because of the global financial crisis.

Major Issues/Problems Identified

7.(U)Tanzania's business environment remains difficult, in part because of bureaucracy and corruption. Efforts to reform business regulations have slowed. Poor infrastructure in transport, communications and energy remains a major bottleneck. Businesses, farmers and households, particularly in rural areas, lack access to credit. Less than 10 percent of Tanzanians participate in formal banking, agricultural and commercial interest rates often reach 20 percent, and the use of land for collateral is difficult due to complex ownership laws. Several privatization efforts of large parastatal companies failed in the last several years; the government has reassumed control over national airline ATCL, national telecom utility TTCL, and Kilimanjaro airport manager KADCO among others.

II. Political Reforms/Rule of Law/Anti-Corruption

Major Strengths Identified

18. (U)The Tanzanian press has reported freely on cases of alleged corruption. The government is following up on the findings of the Public Procurement Regulatory Authority (PPRA), which has stepped up its audits of procurement agencies, with the objective of better enforcing existing regulations. Following the introduction of a reinforced legal framework, the Prevention and Combating of Corruption Bureau (PCCB) is investigating several cases of alleged grand corruption.

19. (U)The Government of Tanzania attacked the problem of counterfeit products with vigor, including by confiscating illicit goods. Through public reports and seminars, the government sensitized the public to the cost of counterfeits in terms of harmful side effects and lost revenues. Additionally, the Tanzania Bureau of Standards introduced an Import Standardization Mark to verify the quality of imported products.

Major Issues/Problems Identified

10. (U)The national judiciary is formally independent, but remains underfunded, corrupt, inefficient, and subject to executive interference, especially in the lower courts. Corruption and impunity within the police force continue to be problems. However, the Inspector General of Police has made the fight against corruption as well as the professionalization of the police force top priorities.

11. (U)Foreign investors and businesses, including U.S. firms, continue to report encountering pervasive corruption in Tanzania. Few corruption cases result in arrests or convictions. The national anti-corruption authority PCCB has no jurisdiction in the autonomously-governed archipelago of Zanzibar.

III. Poverty Reduction

Major Strengths Identified

¶12. (U)The country is making progress towards achieving MDG targets (consistent with targets articulated in Tanzania's own poverty reduction strategy), especially in reducing child mortality and increasing access to primary education. With the majority of the population engaged in smallholder farming, an increased focus on rural growth, and the implementation of improved policies, strengthened institutions, and additional funding under the new 'Kilimo Kwanza', or 'Agriculture First' initiative, the MDG goal of eradicating extreme poverty and hunger is more likely to be achieved.

¶13. (U)With donor support, Tanzania continues to increase government investment in health, education, and sectors that stimulate economic growth, especially infrastructure. More than half of USG's Millennium Challenge Compact funds will be spent to build and upgrade critical roads that will help rural farmers access markets, clinics and schools.

Major Issues/Problems Identified

¶14. (U)GDP per capita remains low, at USD 442; recent economic growth has yet to make significant inroads in reducing rural poverty. Infant and child mortality rates are still among the highest in the world, literacy rates are still low, and more than one third of all children under five years of age are malnourished. Tanzania's annual population growth rate of about 2.9 percent will put pressure on existing social service delivery and employment.

IV. Workers' Rights/Child Labor/Human Rights

Major Strengths Identified

¶15. (U)The Trade Unions Act of 2000 recognizes workers' freedom of association, the right to bargain collectively, and the right to strike, and these rights are generally respected.

¶16. (U)The government of Tanzania continued to make substantial progress under the auspices of the International Program for the Elimination of Child Labor. During the year, the government developed a child rights curriculum, the first of its kind in Africa, which will be used in training institutions, government agencies, and other organizations. In 2009, the government drafted a National Plan of Action on Child Labor, began formulating an implementation plan for its Child Development Policy, and drafted a unified law on children's rights.

Major Issues/Problems Identified

¶17. (U)Police officers tortured, threatened, and otherwise mistreated suspected criminals and prisoners during the year. There were reports of killings in police custody. Prison conditions remained harsh and life threatening. Prolonged pretrial detention remained a problem.

¶18. (U)Tanzanian law prohibits forced or compulsory labor and prohibits the exploitation of children in the workplace. The Employment and Labor Relations Act of 2004 establishes 14 as the minimum age for contractual employment. However, child labor remains a problem. Girls are often forced to work as domestics and boys in agriculture.

V. International Terrorism/U.S. National Security

Major Strengths Identified

¶19. (U)Tanzania has put in place the necessary legal foundation for the criminalization of money laundering and terrorist financing as well as measures to report suspicious transactions. A comprehensive Anti-Money Laundering Law and a National Anti-Money Laundering / Counter Terrorism strategy was established in 2006 with support from USG. Tanzania established a legal institutional framework and launched an

operational Financial Intelligence Unit (FIU) within its Ministry of Finance and Economic Affairs. The Tanzanian FIU is now functional and is receiving, analyzing and disseminating suspicious transaction reports on Money Laundering / Terrorist Financing. Through various seminars and workshops, Tanzania is raising awareness and enhancing understanding of AML/CTF.

20.(U)Tanzania has ratified United Nations Conventions against illicit traffic in narcotics Drugs and Psychotropic substances (the Vienna Convention) as well as the UN Convention Against Transnational Organized Crime (the Palermo Convention). The GOT continued its participation in several multi-year programs to strengthen law enforcement and military capacity, improve aviation and border security, and combat money laundering and terrorist financing. Tanzania cooperated with the United States and complied with its obligations under UN Security Council resolutions.

Major Issues/Problems Identified

21. (U)The government of Tanzania has yet to prosecute a single money-laundering case under its new law. Zanzibar still does not have an Anti-Money Laundering law.

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